Valiant Organics
Limited

Date: May 30,2022

To,
Listing/Compliance Department
BSE LTD
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001.

BSE CODE-540145

To,
Listing/Compliance Department
National Stock Exchange of India Limited
"Exchange Plaza", Plot No. C/1,
G Block Bandra-Kurla Complex,
Bandra (E), Mumbai- 400 051.
NSE CODE- VALIANTORG

Sub: Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to the Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Call held on Thursday, May 26,2022 on Audited Financial Results of the Company for the quarter and year ended March 31,2022.

Kindly take the same on your record.

Thanking You,

Yours Faithfully,

For Valiant Organics Limited

Avani!

VALIANT ORGANICS LIMITED MUMBAI

Avani D. Lakhani
Company Secretary
ICSI M.NO: A47118

"Valiant Organics Limited Q4 FY22 Earnings Conference Call"

May 26, 2022

MANAGEMENT: **MR. ARVIND CHHEDA – MANAGING DIRECTOR, VALIANT ORGANICS LIMITED**
MR. MIHIR SHAH - SENIOR FINANCE MANAGER, VALIANT ORGANICS LIMITED

MODERATORS: **MS. SRISHTI JAIN - ANALYST, MONARCH NETWORTH CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Valiant Organics Limited Q4 FY22 Earnings Conference Call hosted by Monarch Networth Capital. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Srishti Jain from Monarch Networth Capital. Thank you and over to you, ma'am.

Srishti Jain: Thank you. Good evening everyone. On behalf of Monarch Networth Capital, it is our pleasure to host the senior management of Valiant Organics. Today, we have with us, Mr. Arvind Chheda - Managing Director of the company and Mr. Mihir Shah - Senior Finance Manager. I would now request the management to provide their initial comments. Over to you, sir.

Arvind Chheda: Thank you Srishti. Good evening everyone. It is my pleasure to welcome you all to the Earning Conference Call for the fourth quarter and the year ended FY2022. Let me first thank all the participants joining us today and I hope everyone is keeping safe and well. In the interest of the participants joining us today who may not be familiar with our company and business, I would like to give a brief overview of the company first.

Valiant Organics Limited is a specialty chemicals manufacturer in India with the legacy of more than 3 decades. The company is a part of Aarti Group which have other prominent companies like Aarti Drugs, Aarti Industries, Aarti Surfactants, etc. The company was across various chemical processes like Chlorination, Hydrogenation, Ammonolysis, Acetylation, Sulfonation, Methoxylation amongst others. Some of the key manufactured products are:

Para Chlorophenol, Ortho Chlorophenol, 2, 4 Di Chlorophenol; Ortho Anisidine, Para Anisidine; Para Amino Phenol, Ortho Amino Phenol, Ortho Nitro Anisole, Para Nitro Anisole, etc. These are the main products. Our products find downstream applications across various sectors such as Agrochemicals, Pharmaceutical, Dyes and Pigment industry and Veterinary Drugs. Our entire strategy revolves around final process of space in niche market. This is something we have mastered over the years and our dominance has reflected as we have a significant market share in all our major chemistries where we operate. We have 6 integrated manufacturing facilities across Gujarat and Maharashtra. We have strong 90-year relationship with our clients in both domestic and international market, some of which extends over business **(Inaudible) 3.15** thanks to our high-quality goods, innovative production capabilities and invention driven value-added products.

In addition to Pan India presence, the company also exports to the countries in Asia, Europe and USA. We have an outstanding board comprising of highly qualified individual along with experienced management team. Our group Chairman, Shri Chandrakanth V. Gogri is a stalwart in Indian Chemical industry and the founder of the much sought after the Aarti Group of industries. Our chairman, Mr. V. Gogri is an IIT Mumbai graduate and has over 30 years' experience working in this domain. All the board members including myself remain committed to the growth of Valiant. With that, I would like to hand over the call to Mr. Mihir Shah, our Senior Finance Manager to brief you on the financial and operational highlights for the quarter and the FY2022 under review. Thank you. Over to Mihir.

Mihir Shah: Thank you Arvind bhai. Good evening everyone and welcome to the earnings call. I hope you had a chance to study our financials and earnings presentation which we have uploaded on our website and exchanges.

Let me start by briefing you on financial performance of the company on a consolidated basis for the fourth quarter and full year FY21-22. The revenues from operations grew by about 21% on quarter-on-quarter basis and around 49% on a year-on-year basis to around Rs. 348 crores. The EBITDA was about Rs. 57 crores which grew by around 14% quarter-on-quarter, but declined by about 2% on year-on-year basis. Our EBITDA margin for the quarter was 16.4%. The net profit reported was around Rs. 37 crores which grew by 15.2% quarter-on-quarter and increased by 6.9% year-on-year. Our PAT margins for the quarter was 10.67%. For the year ended in March 22, the revenue from operations stood at around Rs. 1153 crores which grew by around 53% year over year. EBITDA growth was flat against the previous year at around Rs. 205 crores. EBITDA margin for the year stood at 17.77%. The net profit stood at around Rs. 128 crores degrowing by 2.3% year-on-year and PAT margins for the year stood at around 11.09%.

Coming to the operational highlights, both Q4 FY22 and the financial year ending in March 22 had good topline growth on a year-on-year and quarter-on-quarter basis owing to the higher prices as well as volume addition of PAP ramp up. The raw material prices and market volatility continue to remain under pressure due to the geopolitical situation. On the CAPEX front, PAP ramp up continues to be on track and we had now achieved a production of 300 plus metric tons per month while OAP and pharma intermediates projects both are on track with no significant delays. OAP phase 1 trial run has been successful and both OAP and pharma intermediate plants expected to commence production from quarter 2 FY23. In FY22, the direct and deemed exports together accounted for 14% in Q4 and 16% for the full year.

With this, we can now open the floor to Q&A session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bhavik with Arihant Capital. Please go ahead.

Bhavik: My question is, I wanted to know about operation efficiency on the PAP production?

Mihir Shah: On the PAP production, like I said, we are on the ramping up stage. As far as the batch process is concerned which actual capacity would be around 500 tons per month. We are already at 300 tons per month, so that is it right nowso we are almost there as far as batch process is concerned. Once the continuous process begins, we will ramp up that as well, but that is subject to the trial runs and stability of the product of continuous process. We are expecting probably in the second half of the year to have some better improvement on that on the continuous process.

Bhavik: Because as far as I recollect, during the AGM, it was mentioned that the PAP production inefficiency which was going on would get resolved by Q4 FY22?

Mihir Shah: Correct, so that problem that we were facing on the stability of the product, so that is resolved, so we are now ramping up pretty quickly. We see our Q3, we were only at around 150 to 200 tons per month, we now crossed 300 and in this current quarter and by next quarter, we will reach to 500 also.

Bhavik: So, the maximum production gap is 500 tons per month?

Mihir Shah: In the batch process. Once we start with the continuous process that will increase.

Bhavik: And on the borrowing front, I have noticed that significant amount of borrowing has been increasing in this quarter, so closing FY22 and if I compare that with FY21, are we on a comfortable stage if we look at the debt or the equity or like are you planning to minimize it?

Mihir Shah: On a debt to equity ratio, we are still at 25%, so that is the comfortable position currently. Having said that you are correct, we have taken some long-term loans in terms for the CAPEX of our pharma intermediate project. Apart from that, there are some short-term loans which we have also taken due to the working capital cycle to maintain that. Given the current scenario, our working capital requirements have increased, so that is the reason. So, short-term loans will get reduced and we are actually not looking at any further term loans at least in near future. So, all of this will begin to decline as in how the repayments happen.

Moderator: Thank you. Our next question is from the line of Parthiv with Tracom Stock Brokers Private Limited. Please go ahead.

Parthiv: Sir, my question comes from the cash flow statement, what I witness is very alarming rate of trade receivable and as a result of which our net cash reduction from the operating activity has gone negative and historically this is a very rare phenomena, I never witnessed in Valiant this happening, could you explain me the rationale what has gone wrong and what are we doing to rectify this?

Mihir Shah: There are two main reasons for this, one is our sales have increased significantly, so with that our debtors have increased also. So, that had an impact on the cash flow which the credit period is about 60 to 90 days. So, whatever increase in PAP happened mainly that all are coming to the debtor side as of March and our ramp up also happened in Q4, so those are the key reasons why the debtors increased. That was one reason and second is we tried to streamline our payables also, so we have reduced our payables significantly equity. So, that reduction in payables and increase in debtors that have caused the operating to get a little impacted and it has become negative. Having said that with time, this will also, once PAP comes up and the cash flow in PAP also start, this will improve. So, as of March, it does look little alarming, but rest assured, it is not a situation that is very alarming for the management as of now.

Parthiv: And sir, now coming back on the margins, even if I look at the standalone margins as compared to the previous commentary from your end, it was more understood that there is a quarterly lag in terms of the passthrough and even if I monetize the phenol prices, I understand there would be other raw material as well, but we know there is no scope of improvement in our margins, in fact they are deteriorating quarter-on-quarter, so are we at a **(Inaudible) 14.17** or what is your sense, where are we headed starting from quarter 1 FY23?

Mihir Shah: Yes, you are right, so earlier up until when we were in January, we definitely felt that we are at the peak of that pricing, but then because of the whole war situation, things didn't really improve as we had expected. Our phenol prices have also increased quarter-on-quarter. Our Q4 also increased by about 5% on phenol price if I just compare December to March. So, phenol prices have increased. Other prices or other key raw materials, PNCB, ONCB, they have also were at the peak in January, February. March has little stabilized but having said that almost half of Q4 has gone with the higher prices, so the margins we continued in quarter 4 which we were expecting to have some relief but because of the war situation that increased. Along with that, then that is on the raw material side. Along with that freight increased, power cost increased, so all of those cost also added to our overall margin dip but again now things do seem to be stabilized in, so probably the quarter now, Q1 will have some improved margins and going forward will continue to improve with the war scenario kind of stabilization. That is something which is market driven and we don't have any control on it.

Parthiv: Sir, is it safe to understand that maybe because of some competitive intensity or may be some competitors, Chlorophenol capacity would have come on stream. We are not getting that pricing power that we used to previously and also despite the quarterly lag in terms of the passthrough, yet we are not seeing any sort of green shots in the margin, so I understand this war situation, but there have been companies which have been in a position to improve their quarter-on-quarter margins, so by when can we expect some sort of normalcy and what would be your band of normal margins that you would be happy with?

Mihir Shah: To your first part of the question, as far as Chlorophenol competition is concerned, I don't think that is the situation, it is not really that. We have, in fact our sales have increased, so that is not the problem, the problem is mainly coming from phenol prices as well as the other expenses that I said freight and export expenses were increased and so that is the reason, but it will get passthrough. Maybe Q1, you will see some betterment there. We were expecting Q4, but unfortunately it didn't, Q1 probably will be better.

Parthiv: And sir, last question regarding your PAP realizations currently and also sir, you mentioned that in H2 probably you will start working on the continuous process, so can I assume that in H2, you will be ready with the continuous process or in H2 you will make an attempt to do the continuous process, so as to assume that maybe it will take another 6 months for you to stabilize on the continuous process and may be any fruit coming out of continuous process we will see in FY24, not FY23, is my assumption correct?

Mihir Shah: We are already working towards the direction part of the continuous process, so that is happening. In H2, we will start with our process as an experiment whether the product is stabilizing, the problem that we face in batch, are we facing the same trouble in continuous, so that is the thing that we will kind of work upon. If all go well, yes, there will be some bit of revenue addition on continuous basis, but on a conservative basis, we are kind of guiding that continuous process can probably add full value in FY24.

Moderator: Thank you. The next question is from the line of Parin Gala with SageOne Investments. Please go ahead.

Parin Gala: Mihir, first question is, our short term and long term debt, consolidated for FY22 is about Rs. 350 crores and the finance cost in the P&L is about Rs. 6.5 crores, so can you explain that?

Mihir Shah: So, as we are looking at the consolidated figures, so what have happened, our subsidiary company, which was Valiant Laboratories was earlier partnership firm. That got converted to Limited and because of that the partner's capital has ended up in the short-term borrowing part which is the unsecured debt. So, that is why the numbers seem high, but the interest paying is only on the actual short-term loans that we have taken and not on the unsecured loans.

Parin Gala: How does this anomaly get corrected?

Mihir Shah: I will have to look into that. Right now, we probably work something around as to how does the partner **capital we took and we handle 20.09** but as of now, as of now it is under the unsecured…..

Parin Gala: But we were to assume that for the next year until you don't correct this, you will be paying finance cost for this entire Rs. 350 crores?

Mihir Shah: No, that is what I said it's not interest bearing, it is partnership capital which has gone into unsecured loans that is interest fee. We are paying, finance cost is on the actual debt only that we have taken, standalone we will get that figure.

Parin Gala: Mihir, what is the actual consolidated debt right now?

Mihir Shah: Standalone is Rs. 128 crores long term debt and on the subsidiary side, there is no term loan, so there is no debt at all, it is only the unsecured part and combine short term, long term would be about Rs. 128 crores plus other Rs. 127 crores.

Parin Gala: That is on the standalone you say?

Mihir Shah: Yes, on the standalone. There is no debt on the subsidiaries. On consolidation there is no debt, it is only that unsecured part which is coming.

Parin Gala: And last question from my side, again book keeping, our capital work in progress has short up drastically from Rs. 45 crore to Rs. 110 odd, can you just explain that is it all the CAPEX related and if it is so, then can you give me the breakup because 110 looks to be a very large number?

Mihir Shah: So, out of that 110, about Rs. 53 crores or Rs. 55 crores is my pharma intermediate project where the budget is about Rs. 60 crores. We have taken about Rs. 55 crores in that. It is not commercialized, so that is the forming a part of **sales 22.08**. Apart from that there is OAP project also which is not commercialized, so that is another portion that is another big portion somewhere around Rs. 30 crores so that comes to the Rs. 90 crores and then balance in CNM small reactors that we do for our other plants to form the part of that.

Parin Gala: And last one again, Mihir, there were certain issues with regards to the state government in the handling of HCL after what episode happened with one company and I believe we also have it as a biproduct, so have we addressed that issue?

Arvind Chheda: We are taking care of HCL slowly this environment standards are getting stringent day by day, but annually we are doing as per the law, so we don't have to worry about it.

Parin Gala: No worry sir, I understand, but I am saying if we are not able to dispatch that entire thing, storage capacities I am sure would be limited at the plant, so then it might impact our manufacturing?

Arvind Chheda: Yes, it is correct, what you are saying is right. At present, we are facing some little bit problem for the lifting of HCL but I think within next 10 to 12 days it will be sorted it all.

Moderator: Thank you. The next question is from the line of Srishti Jain with Monarch Capital Advisors. Please go ahead.

Srishti Jain: Sir, my one question was on the fact that growth in this quarter has mainly been realization driven, as you know if we compare Q-on-Q, there has been a volume decline across our chemistries, is there a reason why we are seeing volume decline, is competition from China increasing?

Mihir Shah: Sorry, you were saying that there is a volume decline?

Srishti Jain: Yes, quarterly, Q-on-Q basis.

Mihir Shah: I think that would be marginal because in fact PAP volume increase, so it is for volume realization also, it is not purely price realization. In fact, I think let me just wanted to check again.

Srishti Jain: Are we being able to pass on the price increase, what kind of reaction are we getting, are we being able to negotiate?

Mihir Shah: Yes, I think on the price realization, right now there is no problem. It is business as usual, so it is not something that we face trouble either upwards or downwards, in fact, if the growth has come from volume itself of PAP and others have remained more or less as past. There is also growth from our subsidiary company which has **(Inaudible) 25.42** so that Paracetamol also, we have quite much in Q4, so again that was also volume growth and not really price growth.

Srishti Jain: Sir and on the receivable front continuing from like one of the participants, you actually elaborated on the fact that working capital days are higher because some of the past products which have been sold to the market, so are we currently selling it to the market because we could also sell it to our subsidiary?

Mihir Shah: We are doing both, about 80-85% is to the subsidiary, but we are also selling in the market.

Srishti Jain: Sir if that is the case then our receivable days shouldn't be that high, right?

Mihir Shah: Yes, but all that receivable has happened in the month of Jan, Feb, correct, so as of March it comes as, it is not due, but it is still there, it comes on the balance sheet because all that jump of growth has come only in Q4 around the PAP side and even though it is in the subsidiary we still have our credit days that are there, so that is constant for all our customers. So, we do it amrs; length so even these people seeing similar days credit period.

Moderator: Thank you. Our next question is from the line of Ankur S. with Corsa Capital. Please go ahead.

Ankur S.: Just one question, I was just going through the presentation, on page 14, in the chlorination slide, like obviously because of the capacity's ramp up, I have been seeing an increase in volume, however, the revenues have been constantly declining, is that the mistake or if you can explain that?

Mihir Shah: Which slide?

Ankur S.: Slide number 14, chlorination so volume for 9 months FY22 is 12,245 metric tons?

Mihir Shah: For 9 months, we are seeing the previous year, you are seeing the quarter 3 presentation. **(Inaudible) 28.23** and the full year.

Ankur S: There are no volume details given in the quarter 4 presentation. Even if it is from the quarter 3 presentation, but like the volumes have been gradually increasing, but the revenues have been declining, so especially in our price or inflationary environment, like it was a just a simple question that if there is a mistake or actually the realization on Chlorophenol are declining?

Mihir Shah: No, there is in fact no decline, I think this is probably reading it differently, our volumes have also increased and our realization has also increased and chlorination definitely has increased. There is no problem there.

Ankur S.: So, I am just reading out the numbers, so FY20 the volume was 10,500 metric tons; FY21, the volume was 12,234 metric tons and 9 months, FY22 it was 12,245 and likewise revenues for FY20 were Rs. 219 crores; FY21, Rs. 213 crores and 9 month, FY22 Rs. 198 crores, this is from the presentation?

Mihir Shah: Now, I am on Q3 presentation and I am seeing chlorination also have increased in revenue from 539 to 730 and also my volume has increased from 4000 tons to 4300 tons of chlorination.

Ankur S.: Maybe I may take this offline, maybe it is a misunderstanding, second question is on the PAP, Mihir, it has been obviously commendable that finally we got a breakthrough in the product and everything, but like the use is going to be in the ramp up and the continuous plant because like in batch production, like I mentioned it is going to be up to 500 metric tons per month. So, what are the type of challenges which you all are facing and on the second part like on batch production, are the margins at good levels or we are like at **(Inaudible) 31.12** levels and what would be the difference between running the plant at continuous production vis-a-vis the batch production, can you just explain us the margin difference?

Mihir Shah: So, on the PAP side, on the batch side, the problem that we were facing that problem is behind us now, so we are now moving forward with the positive outcome and we are crossing, last month was a little lower, this month was higher, we had crossed 300, we are expecting to reach 400 and 500 by next couple of months, so that problem has been resolved. Coming to the continuous side, we will be implementing the same process that we have done for batch, but chemistries have lot of technical factors that come in, so we are just being cautious on the fact that from day one we may not get the product that we want, then we may face some trouble and then that trouble will be also try and rectified the way we rectify our batch process, but we are not too negative on that because we have already resolved the batch process problem. So, that is the point on the continuous. Coming to margins, we as such don't analyze margins on product level, but this being a new plant being operated, so we do have some idea. The margins will not be as high as what we have for our first 12 products like Chlorophenol, but having said that it is not cheaper also, it will be somewhere in the range of 18 to 20% kind of margins if all the market dynamics are productive. Right now, that will be much lower because there are big cost that are there, which is getting alluded on the lower products, but once the productions comes in we are expecting that the margins will be in that 18% to 20% range on a full year basis. Coming to batch, difference between batch and continuous, once we are on the continuous side, our production capacity will be somewhere around 900 to 1000 tons per month which is right now at 500 tons per month.

Ankur S.: And was this plant particularly planned in this manner that we will start with batch and then we will go to continuous like was that the original plan or the real plan was to start with continuous and then work and we went to batch and then we solved the problems and now we are going to the continuous, if you can just give an idea on that?

Mihir Shah: We had planned for continuous, no doubt, we did, but the problem that we were facing of the color first and then separately we had to process changes which we had to take in. Because of that process changes, certain things change where right now is happening through batch and then continuous, whatever changes are made for batch, the reengineering to happen for batch, but initially we were looking at continuous only, but due to the changes, **(Inaudible) 34.41** batch.

Moderator: Thank you. The next question is from the line of Sanjay Singh with ICICI Securities. Please go ahead.

Sanjesh Jain: This is Sanjesh Jain from ICICI Securities. Couple of them, first on the margin, Mihir, you made a comment on the PAP margin telling that right now it is lower, it is puzzling to understand that because Rs. 625 is an average selling cost on the PAP, 225 is PNP cost that leaves us to, if I add some more raw material year ended, we will still be upwards of 65% gross profit margin on the PAP which should have translated into margin improvement. Sequentially even if we have assumed the remaining product doesn't have any improvement in the margin, though it should have because we were talking of some price increase action being taken there, can you help us reconcile both the things and help us understand in a holistic way why the margins are so low?

Mihir Shah: So, PAP 620 if you take an average, 625, our average pricing would right now impact is not as much as 625 that has also come down to somewhere around 600 or 590, but having said that there are fixed cost, our plant was designed earlier to run the continuous process at 1000 tons per month, then because of the issues, we have to move to bath, like I said with the earlier questionnaire to move to that, but our fixed cost remained. We, our labor cost, our contracts, personal lending is there, so those are the costs that overall get loaded onto this and realization per kg on PAP is lower right now plus there is depreciation cost which is also there.

Sanjesh Jain: Just to understand here, I was more looking from the gross profit margin, I can understand the fixed cost and all, but this is about the gross profit margin, why it has sequentially dip by 300 basis points while there is a PAP which would have actually added to the margin significantly?

Mihir Shah: I can get into the detail here and we can speak again later, but I don't have the numbers per kg per product right now available, so I am not able to comment, but right now the margins are lower on PAP, that is true, but I need to figure out what exactly is adding up over years because like you said PNCG prices that you mentioned and compared to the selling prices, let me get back to you on this.

Sanjesh Jain: So, in the second point is on quarter-on-quarter sequentially, if I remove PAP, that means we have hardly grown anything in terms of volume, it has actually dip and there is some increase in the realizations on a sequential basis, even if I take out that PAP, despite that and adjusted to the PAP the gross margins looks like have shrunk a lot, so again your gross profit numbers are really inconsiderable, it would be really helpful if you can help us understand why gross margins were so weak?

Mihir Shah: Sir, like I said, I will too get into the depth of it, but main reason which also I think I spoke about it in the first question that our prices of raw material was peak in January and February and then coming down in the second half of Feb and March, so that our inventories are at a higher price and our stock that get valued in a **(Inaudible) 38.55** basis is at the lower side, so that gives an impact to our raw material costs going up. So, that is the main and only reason of the raw material, phenol going up, PNCG at its peak, ONCG at its peak, so that is the reason why our gross margins look the way they are.

Sanjesh Jain: So, how many months raw material to be **(Inaudible) 39.14**, that is number one? Number two, when you say peak in January, February and can you talk about the inventory that again doesn't reconcile?

Mihir Shah: Let me do that maths, very honestly I have not done on month over month maths and at least not product wise, I can get back to you on that, but raw material pricing which is the fluctuation that is the reason for our gross product, but having said that let me check, let me get into this.

Sanjesh Jain: So, let us look at what is happening on the Q1 and Q2 when you mention that these things will normalize, should we again hit the normalized margin of upwards of 35% considering the raw material as high as, so 40 plus is not possible, that is purely a mathematical, but 35% plus kind of a gross profit margin and the 20% plus kind of an EBITDA margin is achievable by Q2, is that a fair understanding and can we also have a tailwind of raw material now at least on the phenol side softening?

Mihir Shah: On EBITDA side, it will still take time to achieve that margin and also the previous years we didn't have these many products, we did not have PAP, we did not have PA, OA, it was mainly Chlorophenol business which had the great margin, but as and how other products came in you see that our margins would have subsided to that extent, but coming to upwards of 35, I am not very sure that it would reach that level, but we are saying that somewhere around 30% gross margin and about 20-22% EBITDA margin is achievable in near future, but on a stabilized basis, we do try to achieve around 25%.

Sanjesh Jain: Let me ask you in a different way, we have done an incremental CAPEX of Rs. 400 crores, probably another Rs. 100-Rs. 150 crores of investment in the working capital, so the total investment is close to Rs. 550 crores, is that the right understanding?

Mihir Shah: Correct.

Sanjesh Jain: And if we have a threshold of 20% on a Rs. 550 crores that means from FY21 level that EBIT should go up by at least Rs. 100-Rs. 150 crores is this a fair understanding that means by FY23 or probably FY24 within another Rs. 100 crores of CAPEX capitalization, we should cross that Rs. 300-Rs. 320 crores of EBIT to maintain a 20% ROCE, will that be a fair assumption?

Mihir Shah: On a percentage basis, what does that come to.

Sanjesh Jain: 20-22% kind of an ROE.

Mihir Shah: Yes, by FY24 I think that is the fair assumption because market is very volatile, I am in a very difficult situation to confirm these numbers because we don't know what is next, like in January we thought Q4 will be very good, but then what happened, now, Q1 same looks good, but I don't know how they are going to translate, but FY24 we then safely assume that things will stabilize and we will come to those margins.

Sanjesh Jain: And until and unless we are now stabilizing all those things, we are not venturing into any more big tickets, right?

Mihir Shah: Not anything big, yes.

Sanjesh Jain: Just one last question, on the shareholding pattern, can you help us understand maybe certain shareholders, even within the public shareholding domain which looks like more on a promoter side, will you help us understand what is the shareholding of the promoter and promoter related between what is categorized as promoter and non-promoter in your shareholding?

Mihir Shah: Our promoter/promoter group is around 39, so around 39 point something around 40% is that and the others, this happened because of the amalgamation of the two entities, so they were not a part, so the promoter/promoter group is what the Valiant Organics were originally, but with the amalgamation, they were not in the promoter/promoter groups, they were the investor group and if I combine all of that it comes to I don't know the exact number, but it comes to around 56 to 60%.

Sanjesh Jain: Thank you, I will look forward for you gross profit margins.

Moderator: Thank you. Our next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: Just two questions, one is that the previous participant was asking about the chrolinization products and it seems that your realization if you look at per metric ton has come down dramatically for FY20 to FY22, and so even though your volume and revenue has increased, but the realization per metric ton has come down dramatically year-on-year for last 2-3 years, so if you can explain on that? And second question is on the PAC, once you have the full capacity utilization, how much would you be using for captive consumption for the subsidiary and what percentage you are utilizing to sell in the market?

Mihir Shah: Captive consumption is directly what we need laboratories we will be making, so we are looking at least catering to 85% of our entire production to captively get used and the balance can be sold in the market and on the first question, I am very sorry, if you could just briefly again ask?

Punit Mittal: On the Chlorinization, your realization or per metric ton basis has come down year-on-year since FY20, so even though your volume?

Mihir Shah: We increased our production volume wise also, right for last couple of years, so with that increase, in order to attain or gain the market share and become competitive with China, we too have to become aggressive with our pricing, so that is where some bit of per kg realization did have to take in order to bring into the market and the new clients, so that is why the dip, but I told you the margin is, I am not too sure, it would be very significant.

Punit Mittal: But going forward, do you see again having an update or do you think this is where the prices would stay?

Mihir Shah: This can be considered as stable prices.

Moderator: Thank you. Our next question is from the line of Paranay Jain with Deal Wealth Capital. Please go ahead.

Paranay Jain: Just wanted a sense on what are the volumes we are penciling across our chemistries, chlorination, hydrogenation, ammonolysis and others overall, let us say, if you can split into first half and second half of the year because there will be meaningful addition from the later half?

Mihir Shah: As far as Chlorination, Ammonolysis is concerned, they are steady state businesses, so the volume will remain more or less similar, not much movement there. In terms of hydrogenation, PAP is where the additions will come in, those numbers I have already discussed. We are at 300, we are looking at reaching 500 in the first half, so that addition of volume will come in hydrogenation. Apart from that, OAP and pharma intermediates, both have projects. So, pharma intermediates will fall under others, but our OAP is again hydrogenation which will slowly ramp up, so not much movement, I would say, we could start at as low as 10-20 tons per month in Q2 and then slowly getting that up to Q3 to come to 50, 60 tons per month.

Paranay Jain: So, I mean if I just look at your investor presentation and approximately there is 50,000 MT volume this year, you are saying chlorination, ammonolysis will be more or less same which is about 29,000 MT, so you are not really penciling much higher numbers on that side, for hydrogenation and others if you just add up compared to 50,000 overall, what would you be penciling for FY23?

Mihir Shah: Hydrogenation together for the whole year FY23, we could be somewhere around 30,000 tons that includes PAP and OAP.

Paranay Jain: So, from 50,000 overall, are you penciling around?

Mihir Shah: The others I am not really taking into consideration because that others also form part of Ahmedabad unit which has gone into redevelopment, so in fact there will be some drop in that others volume which will only come online at a later half of this year.

Paranay Jain: So, 60,000 MT would be a realistic estimate for the year then?

Mihir Shah: Yes, it should be fair, 60,000-65,000.

Paranay Jain: And in terms of whatever variables, you see I understand it is a dynamic situation, but nonetheless given how prices stand today and whatever variance you generally see in business, sequentially what is the margin trajectory that you would be looking at and again I am asking for a realistic sense, not an optimistic one, from say sub 17% in Q4, what should we look at in the next 2 or 3 quarters?

Mihir Shah: I think Q1 probably would be again in terms of stabilization, so let us say on a conservative basis, we continue to remain at around 89%. Q2 could move little upwards due to assuming that things become fine geopolitically and all the freight cost and the other expenses kind of levels out. In that case, then we can be somewhere around 20% on a realistic figure and near term, but again very difficult to judge and if you say not to be optimistic, but that is the only way I can put in, otherwise I will have to say that we will be where we are.

Participant: And with regards to debt levels, what is the trajectory for this year and next, what are the levels that you are looking at?

Mihir Shah: Debt, we are not looking at any new borrowings, in terms of long-term, our CAPEX will probably get internally funded only, so no new debt is going to come up, of course, there will be some bit of short term with regards to working capital requirement that can keep fluctuating, but as such no major movement in the debt.

Participant: What is the term debt level reduction you anticipate by next year?

Mihir Shah: We start to repay, we are already repaying on two of our big loans, which started last year and the new loan that we have taken, our repayments begin from December.

Participant: I was just looking for an indicative number from Q4 end, what do you see that reading by Q4 of next year?

Mihir Shah: So, from our Rs. 128 crores of long-term debt, we will probably be somewhere around Rs. 90-Rs. 95 crores by the end of next year.

Participant: And working capital also you believe that number would ease since you said that whatever receivables they are, they shouldn't really go overdue line, you expect it to be collected within normal time?

Mihir Shah: I think from my understanding, we are already at the peak and it will only improve from now, so our working capital requirement also with whatever little substitution, it will only pulled over, we are not intending to do any higher loan as of now.

Participant: If you put all of this together, this is just my last question, what is the operating cash flow number that you are looking at presently for this year?

Mihir Shah: I don't have that ready, I am sorry, I won't be able to answer that.

Moderator: Thank you. Our next question is from the line of Vaibhav Kacholia with VK Capital. Please go ahead.

Vaibhav Kacholia: Sir, I didn't get that number, in terms of total volume, you said 60,000 to 65,000 tons?

Mihir Shah: We are looking at the whole year estimate.

Vaibhav Kacholia: And sir, hydrogenation would be lower margins than the company overall, so most of the growth will be coming in hydrogenation side?

Mihir Shah: Yes, to an extent, it is.

Vaibhav Kacholia: And sir, this year, the others category, the volume has come down, so any reason and is that contributing to the reduction in our overall total profitability, I am not concerned about the margin because that is because of raw material prices or whatever, but?

Mihir Shah: Others I mentioned, the Ahmedabad unit is going through redevelopment, so that is the reason why there is a dip in that. I said that, of course, it will have some impact on our total profitability, but it is a small plant, so that impact will not be major, so when you look at volumes, yes, you will see that volume coming down, but in terms of impact, it has been smaller plant as such that contributes.

Vaibhav Kacholia: And sir, on a per ton profit basis, so do we expect things to stabilize and improve by FY24 or should we assume that since hydrogenation is lower margins, so should we assume that the 23 trend will continue into 24 or will there be uptake at some state?

Mihir Shah: No that would be uptake because pharma intermediate may have better, per kg realization, PAP right now again the prices are volatile, right, so if I look at my current pricing in that case, my per kg will be higher, but we don't know at what level it is going to stabilize. So, it is difficult. So, on a per kg basis, it may still improve because we have other products in OAP which is smaller capacity, but that per kg contribution will be better than PAP. So, we are expecting it to improve if not, it will probably stay same, if not go down, but we are looking at improvement from FY24.

Vaibhav Kacholia: And sir, chlorination this year profit per kg was at equal level or it was higher or?

Mihir Shah: It was probably lower because our volume increase, so we did get aggressive on our pricing and because of the market situation also we had to in order to continue with the business we had to get aggressive, so it might be a little lower per kg.

Arvind Chheda: Phenol price every quarter was increasing by at least 5% to 10%.

Vaibhav Kacholia: So, sir, that was made up by hydrogen and ammonia chemistries this year largely?

Mihir Shah: Sorry, what was made up by that?

Vaibhav Kacholia: The profitability which came down on chlorination was made up by hydrogen and ammonia chemistries at absolute levels?

Mihir Shah: No, chlorination still was higher, even with the reduced per kg.

Moderator: Thank you. Our next question is from the line of Dhaval Shah with Svan Investment. Please go ahead.

Dhaval Shah: Couple of questions, first is on this PAP front, so you mentioned the quality just reconfirming the quality issues are behind, if I understand that right?

Mihir Shah: Yes.

Dhaval Shah: So, now we are one of the few companies in India who would be producing PAP right, so apart from us there would be how many other companies?

Mihir Shah: There is one company that does, there are two companies that actually started, but they are using it captively that is Panoli and **(Inaudible) 58.50** who is there in the market but apart from that, Meghmani is also there, I think that is also is majorly captive Meghmani apart from that as and when other players coming, but right now is just these two players.

Dhaval Shah: And how confident you would be to ramp up your production to 1000 tons per month, by when?

Mihir Shah: We have been conservative in saying that it would probably take by the end of this year.

Dhaval Shah: 23?

Mihir Shah: At the end of 23, but we are doing our best, if coming online earlier then it will **_59.35___**.

Dhaval Shah: And if you could tell us in percentage terms, what sort of reduction in the conversion cost is there at 1000 tons per month?

Mihir Shah: No, I don't have that number for you.

Dhaval Shah: Say, for example, if currently at 300 tons your cost of conversion is Rs. 100, so what it would be because at a large scale at a continuous processing, just wanted to understand what is the benefit of continuous processing?

Mihir Shah: I don't have that ready.

Dhaval Shah: Alright, no problem sir, we will take it offline and sir, you still stand by the guidance given in our earlier conversation regarding around 35-40% growth for next year and then 15-20% growth for the year after that for 2 years?

Mihir Shah: Yes, we are expecting to close somewhere around 1200, 1250 in FY23 and then about somewhere around 1400 in FY24 on a standalone basis, so this is what our assumption is as of now and when continuous comes in, then that will just be additional.

Dhaval Shah: So, on the continuous side, so once you are at 500, how much would be captive and at 1000, how much would be captive?

Mihir Shah: May be 85, 15% as a….

Dhaval Shah: And what are the pricing currently for the subsidiaries product, Paracetamol and then what is the pricing of PAP right now?

Mihir Shah: Pricing of PAP is somewhere around 600, pricing of Paracetamol it is around 650. I am not 100% sure of Paracetamol, but it is somewhere around 650.

Moderator: Thank you. Our next question is from the line of Saurabh from AMSEC. Please go ahead.

Saurabh: Sir, just one thing on the PAP volume, so what was the PAP volumes for FY22? And the 18% to 20% margin guidance which you mentioned, sir, at what level of production that is achievable and at what price you are building in?

Mihir Shah: The volume of PAP in FY22 was around 1900 and the margin that currently we had for PAP is somewhere around EBITDA margin of about 10%-12%, but it will improve once the scaling up happens because there are again certain cost that are just right now getting loaded on very small volume.

Saurabh: So, I am saying at 500 to 600 tons per month, that 15% to 16% margin is achievable or still higher volumes will be required?

Mihir Shah: No, I think 15% margin is achievable once we are in the 500 and then once we move into continuous it will improve further.

Saurabh: And sir, just one more on the CAPEX side, so what would be the number for FY23?

Mihir Shah: This year, so we are still under discussion what major movement that we are doing, which management is still discussing that, but apart from that we still see a CAPEX of around Rs. 60-Rs. 70 crores which will be more or less the Ahmedabad redevelopment, then some bit of pharma intermediates also which will have some bit of addition to that and then PAP is further moving to continuous, we will have to do some further CAPEX, so that will form a part of it. Apart from that, otherwise more or less business as usual.

Moderator: Thank you. Our next question is from the line of Manoj Kumar, an Investor. Please go ahead.

Manoj Kumar: I have a question regarding the share price of the stock because it is declining from the last 2 years and I have invested in this company for past 2 to 3 years, but looking at the fundamental, this company seems fundamentally very strong and looks appropriate and what is the main reason why the stock is undervalued?

Mihir Shah: I think there is couple of reasons or perceptions I would say why this is happening. One thing is the global situation, so what prices are currently ongoing, I think you should keep that out of it because it could be a lot of other factors also apart from the company specific, but apart from that I think it could be the perception that people are in the market on our PAP or something, but to be very honest we don't comment on stock and such we can comment on the business, but stock movement is something which is very market ridden, so I am not able to give any further info on this.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Mihir Shah for closing comments.

Mihir Shah: Thank you all for participating in this earnings call. I hope we were able to answer your questions satisfactorily and at the same time offer impact into our business. If you have any further questions or would like to know more about the company, please reach out to our investor relations manager at Valorem Advisors. Thank you. Stay safe, stay healthy.

Moderator: Thank you. On behalf of Monarch Networth Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.